HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Québec CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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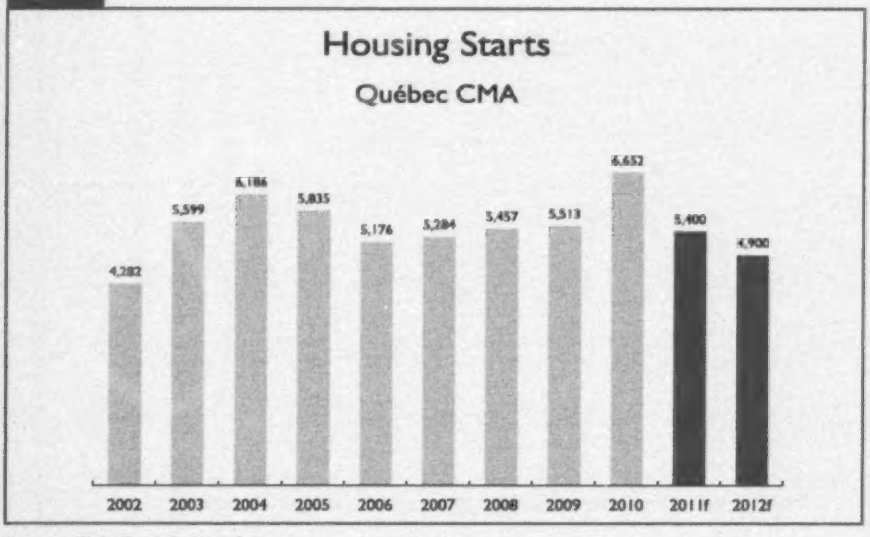
2011 and 2012: activity remains strong but pace slows[1]

Housing starts jumped by 21 per cent in 2010, reaching their highest level in 23 years. As well, the existing home market had particularly tightened at the beginning of the year, as a result of the wave of buyers catching up on and moving up their home purchases in order to take advantage of the low interest rates. This year and next year, the Québec census metropolitan area (CMA) housing market will continue to enjoy favourable conditions. However, the pace will slow down for residential construction, while activity will pick up on the existing home

Figure 1



Source: CMHC f: CMHC forecasts

[1] The forecasts and historical data included in this document reflect information available as of October 5, 2011.

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market, following the decline caused by the wave of buyers catching up on and moving up their home purchases. Lastly, the rental market will be easing, on account of the construction of many rental housing units, especially in 2010. Still, the market will remain tight, given the presence of factors supporting demand: rising employment and significant migration.

Job market: moderate growth

The labour market remains robust in the area, as evidenced by the continued growth in full-time jobs. The CMA has one of the lowest unemployment rates in the country, with a rate that reached 4.4 per cent this past September.

This year, employment will continue to reflect the activity generated by the investments in infrastructure on the part of the three levels of government and resulting from the many commercial and residential construction projects in the area. In fact, job creation will likely come from the construction sector and the professional, scientific and technical services sector. This last sector is in fact linked to the construction sector, since it includes jobs in engineering, related services and surveying.

Next year, a large share of the government investments will be completed, which will slow overall employment growth. Still, some sectors should continue to fuel the labour demand, such as finance and insurance, and health care. As well, the provincial forecasts are calling for rather moderate economic growth in 2011 and 2012, and there is definitely some uncertainty about where conditions are going. While the Québec CMA economy is solid, the area will still be affected by this more general environment, and employment growth will be less significant than in 2010 (+3.8 per cent), attaining 1.5 per cent. In 2012, this growth is expected to moderate and reach 1 per cent.

Demographics: migration inflow to maintain momentum

The strong job creation in recent years has both attracted and retained workers in the area. In 2010, net interprovincial migration in the CMA became positive, which had not been seen in years. The gains were greater than the losses, especially in the exchanges with Ontario and Alberta.

International migration picked up, as the number of newcomers rose to 2,600 in 2010. However, it is important to mention that the rise in net international migration in recent years has also been attributable to the increase in the immigration targets set by the provincial government.

Finally, the influx from other regions of Quebec remains the main source of new residents. The strong employment will bring a large number of newcomers to the area and retain residents in the CMA. Net migration should therefore be expected to stay at sustained levels both this year (5,100 people) and next year (5,300 people). This population inflow into the area will maintain a robust housing demand, particularly on the rental market.

Mortgage Rates

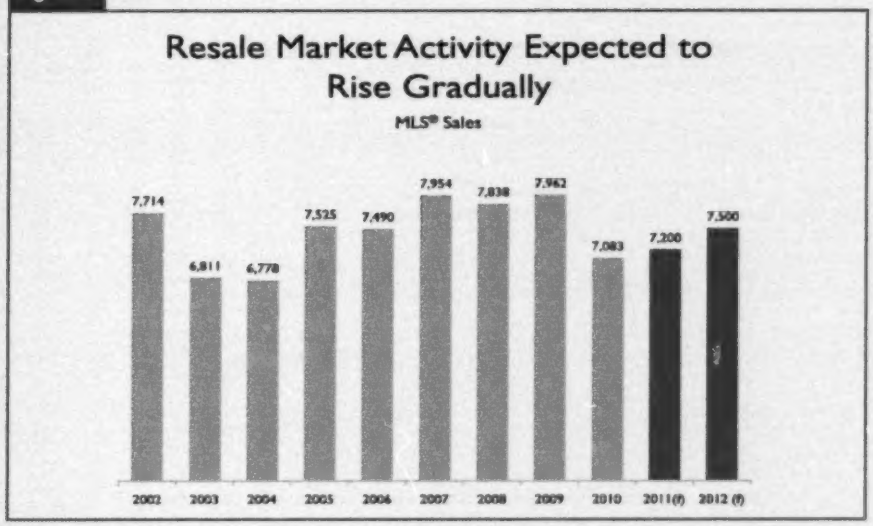
Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Resale market: more choice for buyers

As was the case in several areas of the province, the year 2010 marked, for the Québec CMA, the end of the period during which buyers had caught up on and moved up their existing home purchases. With many households having taken advantage of the low interest rates, a decrease in MLS® transactions was then recorded in the second quarter of 2010, and the decline continued through the rest of the year. Since this past spring, the market has been gradually regaining strength, but activity has been less significant than that observed over the last five years, given that a number of buyers had made their purchases earlier than planned. This situation, combined with the rise in new listings, increased the total stock of properties for sale. As a result, the average number of sellers per buyer (seller-to-buyer ratio) reached 6.5 to 1 for the first three quarters of this year. Such market conditions had not been seen in about ten years in the CMA. As well, even though the market eased the most in the case of condominiums (seller-to-buyer ratio of 7.5 to 1), the single-family home segment also showed notably softer conditions

Figure 2



Source: QFREB by Centris®
f: CMHC forecasts

Figure 3

Source: QFREB by Centris®
f: CMHC forecasts

(seller-to-buyer ratio of 6.1 to 1).

For 2011 overall, the market will reflect a slight increase in activity (+2 per cent) over 2010, and there should be a total of 7,200 transactions conducted through real estate agents. In 2012, transactions will rise again (+4 per cent), and total MLS® sales will reach 7,500 units. The fundamentals supporting demand will still be favourable in the CMA: rising employment, strong migration and low interest rates.

As well, buyers will enjoy a greater choice of properties for sale, which will make it easier for them to find and purchase a home. In 2011 and 2012, there should be an average of about 4,000 active listings, for a significant increase in supply compared to previous years (+30 per cent over 2010). Still, it is expected that, overall, the market will continue to favour sellers. It should be noted, however, that condominiums will be the housing type with the least tight market conditions, as the increase in supply in recent years has added many units to the existing housing stock.

The easing of the market will therefore moderate the price increases, and the average price of residential properties will reach $252,000 in 2011 (+6 per cent) and $ 262,000 in 2012 (+4 per cent).

New home market: pace to slow down

Residential construction was very active in the CMA in 2010, with housing starts having reached their highest level in 23 years. The new home market benefited from favourable conditions and a tight existing home market. Consequently, in addition to the effects of buyers catching up on and moving up their home purchases, demand from the existing home market spilled over onto the new home market. Lastly, the tight rental market conditions also stimulated rental housing construction.

These particularly favourable conditions for the new home market also had an impact on single-detached home building. While starts had been falling since 2005, the year 2010 marked an exception, with an increase of 1 per cent. This year and next year, the downward trend in single-detached home building will continue to be felt. In fact, for 2011, a 27-per-cent decrease in starts of this type is expected. In 2012, activity will fall again, but to a lesser extent (-8 per cent), and starts will hit a low

of 1,200 units. It should be noted that buyers are increasingly turning to semi-detached and row homes, which are more affordable than single-detached houses. This turnaround in the trend is attributable not only to the general rise in home prices but also to the major hike in land prices in the area (+53 per cent between 2006 and 2011), which supports the intensification trend that has been observed in the CMA for the past few years. Rental housing starts will be on the decline, in both 2011 (-16 per cent) and 2012 (-10 per cent). Semi-detached and row homes will remain popular, but starts are expected to register a small decrease in 2011 (4 per cent) and then remain stable in 2012. The solid job market and affordable financing conditions will support demand for such dwellings.

Condominiums are enjoying unprecedented popularity in the CMA. Construction of this type reached a peak in 2010, with 1,727 starts, and a similar level of activity is expected this year. In 2012, the results will reflect an adjustment between supply and demand. The short-term supply[2] reached a new high in the third quarter of this year (1,627 units), for an increase of 52 per cent over the corresponding total last year. In addition, conditions on the existing condominium market have clearly eased, as this market is moving closer to balanced territory, with supply growing faster than demand. In fact, for the first three quarters of the year, the volume of MLS® transactions was relatively stable (+0.4 per cent) in relation to the corresponding period in 2010. On the supply side, it was rather a hike of 47 per cent in active listings that was observed for the same period. On the new home market, this adjustment between supply and demand will lead to a decrease in starts in 2012 (-24 per cent). Still, construction should begin on 1,300 units, a historically high level. Demand for condominiums is on the rise, partly on account of their affordability, as the proportion of purchases of such dwellings is growing not only among older households but also among younger ones (under the age of 25).

The particularly tight rental market in the CMA (vacancy rate of 1 per cent) stimulated rental housing starts in 2010. The construction of a number of retirement homes had also contributed to the increase in new rental units. This year, rental housing starts will register a decrease (37 per cent). For one thing, the units of several new rental buildings are still being absorbed and, for another, few new seniors' housing units are expected to get under way. In fact, there has been a major increase in supply in recent years, and the population aged 75 years or older is currently stable. For 2012, the level of activity should be comparable to this year's volume, and rental housing starts should reach 1,200 units, which is still relatively high.

Total housing starts will therefore be on the decline over the next two years, with 5,400 units expected in 2011 (-19 per cent) and 4,900, in 2012 (-9 per cent). Still, activity remains significant from a historical standpoint and reflects the strength of the economy in the CMA and the affordable mortgage financing conditions.

Rental market: conditions to remain tight despite easing

The conditions that have been prevailing in the Québec area for the past several years have helped keep conditions tight on the rental market. In fact, the surge in employment, combined with the strong migration, contributed to boosting demand for rental housing.

Last year, the rental market in the Québec area eased slightly, as the vacancy rate rose from 0.6 per cent in October 2009 to 1 per cent a year later. This easing of the relationship between supply and demand was attributable to an increase in the supply of new rental housing units. In fact, it was in the case of structures built in the year 2000 or after that the easing of the market was felt the most. In these structures, the vacancy rate rose from 0.1 per cent in 2009 to 1.2 per cent in 2010. One could think that this result had to do with the recent increase in supply (many new rental housing units are currently being absorbed) and the higher rents charged in these newer buildings.

This year, the factors cited earlier supporting a robust demand for rental housing—rising employment and strong migration to the area—remain well in place. Still, the recent increase in supply should again be reflected in the overall vacancy rate. In 2011, this rate should reach 1.4 per cent, and the market will continue to ease in 2012, as the rate should rise to 1.8 per cent.

In 2011 and 2012, less significant rent increases are expected, given the softer market conditions. The average rent for two-bedroom apartments should go up to $705 in 2011 and then to $715 in 2012.

[2] The short-term supply corresponds to the number of condominiums under construction, plus the still unabsorbed units in completed buildings.

A Broader Vision

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Forecast Summary Québec CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market[1]							
MLS® Sales	7,838	7,962	7,074	7,200	1.8	7,500	4.2
MLS® Active Listings	3,254	3,243	3,106	4,000	28.8	4,100	2.5
MLS® Average Price ($)	197,450	212,203	237,294	252,000	6.2	262,000	4.0
New Home Market							
Starts:							
Single-Detached	2,031	1,746	1,768	1,300	-26.5	1,200	-7.7
Multiples	3,426	3,767	4,884	4,100	-16.1	3,700	-9.8
Starts - Total	5,457	5,513	6,652	5,400	-18.8	4,900	-9.3
Average Price ($):							
Single-Detached	261,871	294,172	292,370	320,000	9.5	335,000	4.7
New Housing Price Index (% chg.)	5.3	7.0	3.2	2.5	-	2.0	-
Rental Market[2]							
October Vacancy Rate (%)	0.6	0.6	1.0	1.4	-	1.8	-
Two-bedroom Average Rent (October) ($)	653	676	692	705	-	715	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	393,800	395,100	410,200	416,300	1.5	420,500	1.0
Employment Growth (%)	2.1	0.3	3.8	1.5	-	1.0	-
Unemployment rate (%)	4.5	4.9	4.9	5.5	-	5.2	-
Net Migration	5,017	4,682	4,979	5,100	2.4	5,300	3.9

[1] Source : QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®

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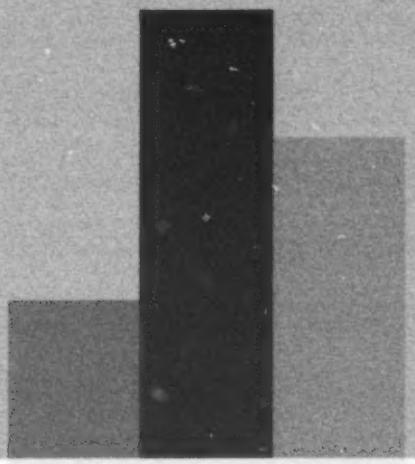

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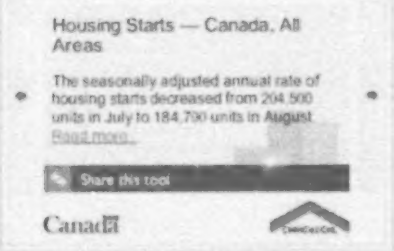
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